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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Inflation Has Worsened . . .

It is well known that inflation for the nation as a whole has moderated dramatically. The consumer price index rose only 3.5 per cent in the 12 months ending in February compared with a 7.7 per cent rise during the previous 12 months. In many areas of the country, inflation has slowed even more. Prices edged up only 0.5 per cent over the year in the San Francisco-Oakland and Los Angeles-Long Beach areas and even declined 0.1 per cent in Minnesota's Twin Cities area.

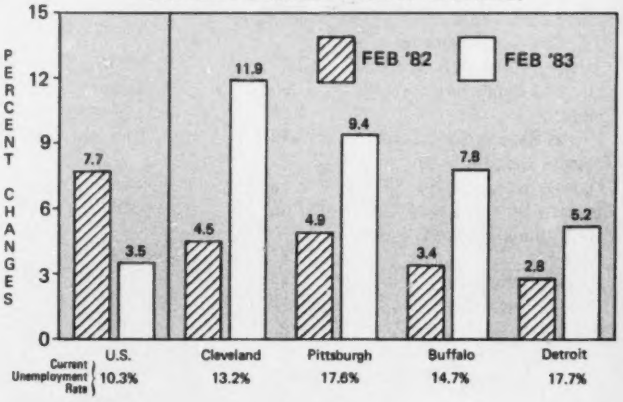
But what is less well known is that in a number of cities inflation has worsened significantly. In Cleveland, Ohio, for example, the consumer price index rose 11.9 per cent in the 12 months ending February, 1983, compared with 4.5 per cent during the 12 months ending February, 1982. In these same two periods prices in Pittsburgh, Pennsylvania rose 9.4 per cent versus 4.9 per cent. Rates of inflation well above the national average and much higher than 12 months earlier were also reported by Detroit, Michigan and Buffalo, New York.

. . . Where People Can Least Afford It

Interestingly, all of these cities are located in the nation's industrial heartland. Here the regional slump preceded the national recession of 1981-82 causing particularly severe damage. Nor have these cities' economies improved yet. In fact, during the past year the number of unemployed increased in all of them. Currently the jobless rate is close to 18 per cent in Detroit and Pittsburgh, 14.7 per cent in Buffalo and 13.2 per cent in Cleveland (see chart).

Not only has the rate of price inflation accelerated in these depressed areas, but in several of them the general level of prices now exceeds the national average. To buy $100 worth of goods and services consumed by the average U.S. household, a Cleveland consumer must spend $109, and a Pittsburgh shopper $104. However, households in Detroit spend a bit less than the average U.S. household to purchase the same basket of goods and services while Buffalo's consumers may buy it for "only" $96—$4 below the U.S. average.

INFLATION TRENDS:
U.S. AND SELECTED CITIES
(PERCENT CHANGES FROM A YEAR AGO)



Consumers Have Many Reasons . . .

The fact that inflation has receded in most areas and interest rates on consumer loans have begun to fall has caused attention to be turned to people's buying habits—as well it should. Representing nearly two-thirds of the gross national product, consumer spending is the largest component of the nation's economy. But lately, consumers seem to be reluctant to open their wallets. After rising briskly in the final quarter of 1982, retail sales softened during first-quarter 1983, posting month-to-month declines in January and February, and not doing all that much better in March, if purchases of domestic cars are any guide.

Nevertheless, businessmen are becoming very optimistic about the vigor of the current recovery. The latest poll of purchasing managers of 250 major industrial companies finds that new orders in March were the highest since May, 1977, indicating that recent increases in production will continue.

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Already, more than half of the major industries have stepped up production since the beginning of the year in anticipation of rising demand for their products. Even many apparel buyers are now ordering merchandise for the fall season. Last year they waited until the last minute, ordering only small quantities at a time. But despite this optimism, uncertainty remains as to when will consumers finally loosen their purse strings.

. . . To Remain Wary About Spending

If you believe the surveys, such a day may not be long in coming. According to the Conference Board's latest survey, consumer spirits soared in March, posting the largest gain in nine years. But this is not always a reliable indicator of imminent changes in spending levels. More important is that nearly 70 per cent of those surveyed do not see the employment situation getting any better in the next six months and less than one-fourth think that their incomes will rise during this time period.

This is critical, for a direct determinant of spending habits is personal income. At the moment it is not very encouraging. Wages and salaries rose by a scant 3.1 per cent in the past year—posting the third lowest year-over-year advance in more than 20 years. After adjusting for inflation, personal incomes were no higher in February, 1983 than in August, 1981. In addition, interest income—an important

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/30/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	143.375	– 1.877	+ 9.924
Loans to Depository Inst.	.896	+ .255	– .760
Float	1.973	– .144	– .086
Total Reserve Bank Credit	155.491	– 1.572	+ 9.084
Treasury Deposits with Federal Reserve Banks	2.534	– .853	– .563
Currency Outside Banks	137.461	– .847	+11.473
Member Bank Reserves:			
Required	37.837	– .061	– .987
Excess (Deficiency)	.448	+ .128	– .018
Total Reserves Held	38.285	+ .067	– 1.005
Net Borrowed Reserves	.081	+ .165	– .585
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.450	– .515	+16.625

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	497.1	+ 15.2‡	+ 11.0‡
M2 (February '83)	2,048.3	+ 21.2	+ 12.8
M3 (February '83)	2,428.1	+ 9.8	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 4/8/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.15%	8.25%	8.30%
* Federal Agencies	8.90	9.00	9.15
* Project Notes–Taxfree (46% Taxable Equivalent)	8.33	8.89	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.90	8.95	9.40

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	7.00%	May	8.65%
15- 29 days	8.50	Jun.	8.60
30- 59 days	8.63	Jul.	8.60
60- 89 days	8.63	Aug.	8.60
90-179 days	8.50	Sep.	8.55
180-239 days	8.50	Oct.	8.50
240-270 days	8.50		

‡Industrial Paper–Prime			
30- 89 days	8.75%	†Federal Funds Effective Rate	8.75%
90-120 days	8.75		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,108	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,477	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.1	0.7	– 5.3
Change in Consumer Prices (new series)*	Feb '83	– 2.4%	2.4%	1.2%
Change in Producer Prices*	Feb '83	1.2%	– 12.0%	1.2%
Civilian Employment (Thousands of Persons)†	Mar '83	99,103	99,063	99,597
Unemployment as % of Civilian Labor Force†	Mar '83	10.3%	10.4%	9.0%
Personal Income*	Feb '83	$ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100)†	Feb '83	148.3	146.2	135.7
Industrial Production Index (1967=100) †	Feb '83	137.3	136.9	142.9
Net Change in Consumer Installment Credit†	Jan '83	$ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Feb '83	–$ 3.58	–$ 3.57	–$ 1.79
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83	1,756	1,707	911
New Construction Expenditures*	Feb '83	$ 250.9	$ 256.1	$ 222.6
Total Business Inventories †	Jan '83	$ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83	$ 340.4	$ 334.3	$ 334.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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contributor to personal income, since it is now equal to one-quarter of wages and salaries, compared with less than one-sixth just five years ago—has remained flat over the last eight months.

On the other hand, the consumer household balance sheet position did improve dramatically between the second and fourth quarters of 1982. As a result of stock and bond market rallies which began last summer, people's financial assets grew ten times as fast as did liabilities—which include home mortgages and installment credit. But while this development may be encouraging to some, it should be viewed with caution. For one thing, improvement in financial net worth does not necessarily translate into higher levels of spending. Second, because more than half of the gain in financial assets is due to the appreciation in bond and stock prices, a large portion of it has not yet been realized. Therefore, most of these gains are only on paper.

Since people have been postponing purchases for about four years now, the question remains: what will get them to go shopping again? From here, it would seem to be basic needs. In the case of cars, the average age of automobiles now on the road exceeds seven years, causing many to push their cars to the limit. Others need more living space, clothes or household furnishings. The longer they resist, the slower the recovery. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/23/83)	107,372	+ 972	–26,817
New York City (3/23/83)	28,398	– 127	– 5,506
Commercial Paper (3/23/83)	168,120	+ 1,064	– 2,252*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/23/83)	216,636	– 782	+15,882
New York City (3/23/83)	59,120	– 506	+ 3,748

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/23/83)	501,550	– 1,466	+26,559
New York City (3/23/83)	115,763	– 1,517	+ 7,069

Financial Markets

	Friday 4/8/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.60%	– .32	– 4.91
180-Day Bills†	8.80	– .38	– 5.19
Longest Bills†	9.04	– .26	– 4.97
Recent Issues:			
9⅝s 3/31/85	9.67	– .20	
10¼s 3/31/87	10.05	– .13	
10⅞s 2/15/93	10.50	– .10	
10⅜s 11/15/12	10.55	– .12	
Municipals:			
Bond Buyer–20 Bond Index* (4/7/83)	9.23%	– .15	– 3.76
Blue List Total ($ Million)	$1,265	–$ 58	+ $ 540
30-Day Visible Supply ($ Million)	$3,596	–$ 962	+ $1,731
Total	$4,861	–$1,020	+ $2,271
Corporates:			
Moody's Aa Composite (4/7/83)	12.14%	– .19	– 3.01
30-Day Visible Supply ($ Million)	$ 745	–$ 427	– $2,350
Stocks:			
Dow-Jones Averages:			
Industrials	1,124.71	– 5.32	+ 281.77
Transportation	509.37	+ 1.98	+ 160.53
Utilities	124.31	– .27	+ 13.79
65 Stocks	445.30	– .77	+ 112.63
Standard and Poor's 500 Stocks	152.85	– .11	+ .36.63
N.Y.S.E. Composite Index	87.87	– .16	+ 20.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	71,476	– 4,264	+ 18,784

* 46% Taxable equivalent 17.09%.

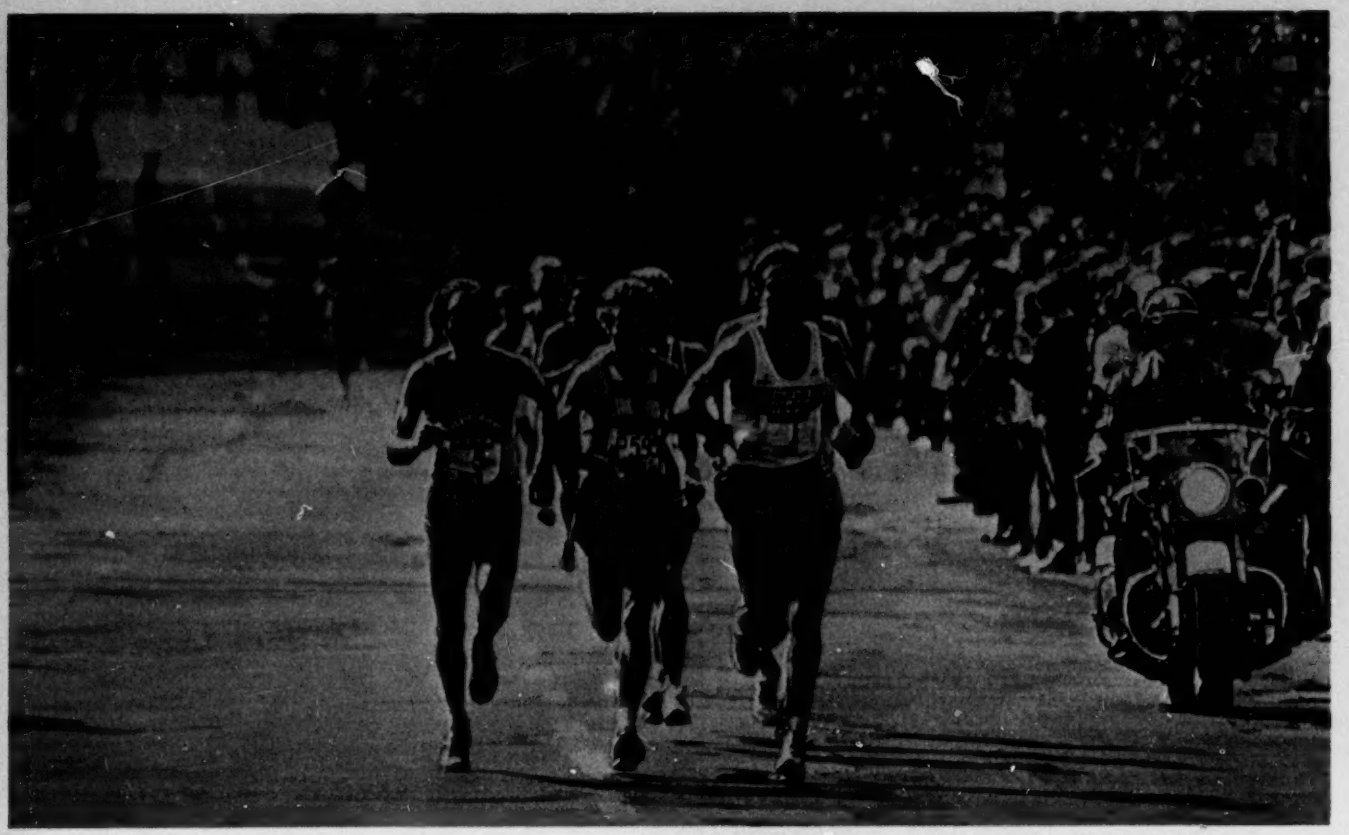
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/8/83	Week Ago
Overnight	9.19%	9.88%
1 month	9.31	9.50
3 month	9.44	9.69
6 month	9.50	9.88
1 year	9.69	10.06
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.65%
Long Term (7 to 15 yrs.)	11.75	11.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/8/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02074	48.22
Canada	.8098	1.2349
Denmark	.1164	8.5910
France	.1377	7.2625
Germany	.4125	2.4245
Italy	.0006925	1444.00
Japan	.004181	239.18
Mexico	.006472	154.50
Netherlands	.3660	2.7325
Switzerland	.4856	2.0595
U.K.	1.5047	.6646



The 1982 New York City Marathon, co-sponsored by Manufacturers Hanover

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